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ABSTRACT

This lesson on complying with government regulations, the 10th in a series of 18 units, is part of the first level of a comprehensive entrepreneurship curriculum entitled: A Program for Acquiring Competence in Entrepreneurship (PACE). (Designed for use with secondary students, the first level of PACE introduces students to the concepts involved in entrepreneurship and helps them become aware of entrepreneurship as a career option.) The following topics are included in the unit: the importance of government rules and regulations to the individual entrepreneur; legislation designed to protect employees, the environment, and consumers; and federal, state, and local taxes affecting small businesses. Included in the lesson are instructional text organized in a question-and-answer format, individual and group learning activities, a case study, and assessment questions. (MN)

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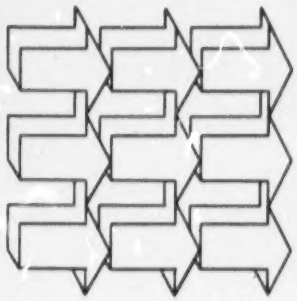

UNIT 10

☑ Level 1
☐ Level 2
☐ Level 3

Complying with Government Regulations

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Summarize the importance of government rules and regulations to the individual entrepreneur.**
- **Classify legislation according to whom it is designed to protect.**
- **Explain at least three types of federal, state, and local taxes affecting small business.**

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Research & Development Series No. 240 AB 10

BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instru :tions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

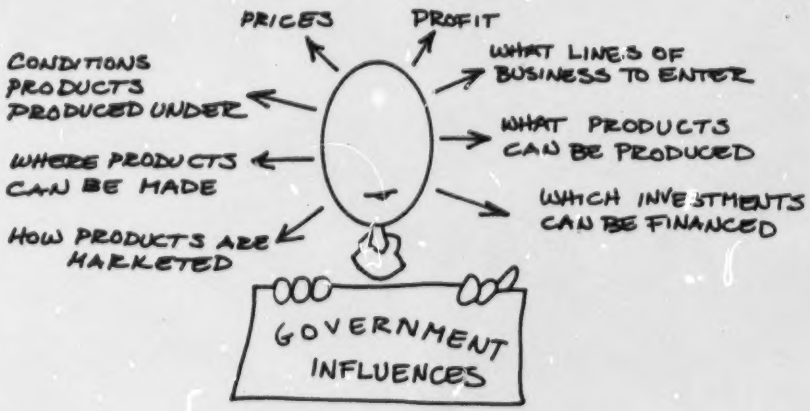
   competition
   legislation
   unemployment taxes

COMPLYING WITH GOVERNMENT REGULATIONS

WHAT IS THIS UNIT ABOUT?

Many government regulations affect how small businesses are run. These regulations may require the owner to get a business license, buy special machines, give certain information to customers, or pay taxes. Government regulations are made by people at the federal, state, and local levels. The regulations affecting small businesses are always changing, and, it seems, they are becoming harder to understand.

This PACE unit introduces the important government rules and regulations that affect small businesses. The reasons for the government regulations are included in the unit. The information in this unit will help you understand how the government expects small businesses to comply with the many government regulations.



WHY ARE GOVERNMENT RULES AND REGULATIONS IMPORTANT?

You will not be ready to start your business until you have considered the rules and regulations your business will have to follow. You must become familiar with the kinds of taxes, the regulations to protect employees and consumers, and the laws to guarantee fair competition among businesses. What laws and regulations will affect your firm? What taxes will your business pay? Are there other special requirements for your particular type of business?

Purpose of Regulation. Even though government laws may increase the work of small business owners, they exist to protect everyone involved in business. You may often think that the time you spend filling out forms and staying up to date on laws concerning your firm is a waste of time. However, every business depends on a healthy society for its success. Attempts by the government to protect its citizens also work for you. Besides protecting consumers, these laws also protect business owners against such problems as unfair competition.

Source of Regulations. Regulations concerning the operation of small businesses are made on the federal, state, county, and local levels. Federal laws apply to businesses across the country. State and local rulings vary from state to state and from city to city.

Impact on Small Business. Owners of small businesses say two things about government regulations. First, they often are surprised by the number of forms and reports they have to fill out. Second, the cost of completing the paperwork and following the rules is often more than they at first think.

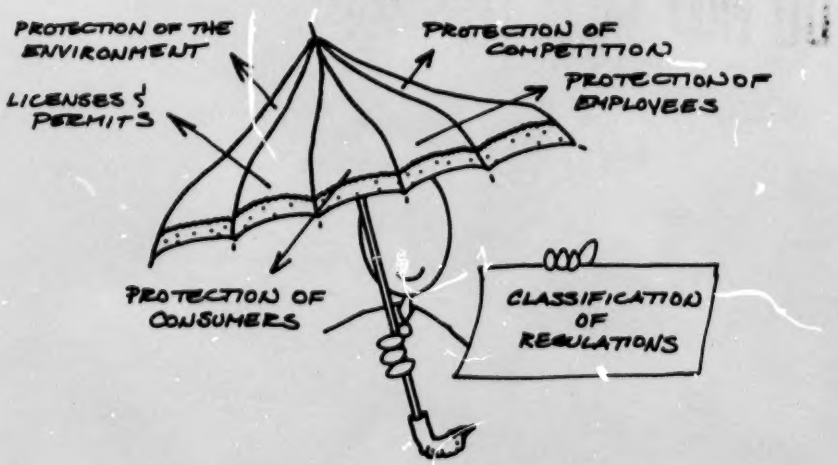
For example, Sam owns a small grocery in New York City. Each year he has to fill out forms for federal and New York state income tax. W-2 forms for the federal government, forms for New York State and federal taxes withheld from employees' pay, and federal and state unemployment tax reports must be filled out. Also, declarations of estimated federal income tax must be paid. And there are more. Four times a year, he must pay New York City and New York State sales taxes; payroll taxes for New York City, New York State, and the federal government, including Social Security taxes; and New York State unemployment taxes.

HOW CAN FEDERAL REGULATIONS BE CLASSIFIED?

Federal and state laws control certain business practices. Whatever your business, you should check with local, state, and federal officials about laws covering your operations.

Federal laws are passed to protect employees, the environment, and consumers. They promote fair competition among businesses. They also control licensing and permits. For example, the Environmental Protection Agency controls those businesses that affect the nation's air, water, and other natural resources

Many of these laws apply to some, but not all, businesses. For example, some businesses are controlled by the Federal Food and Drug Administration, while others must follow the laws of the state where they do business.



Protection of Competition. The federal laws passed to encourage fair competition among businesses include such laws as—

- the Sherman Antitrust Act,
- the Clayton Act,
- the Robinson-Patman Act.

These laws were written to promote competition among businesses operating across state lines. States have similar laws for businesses that operate only within the state.

Competition is encouraged by making it against the law for a business to do something such as fix prices or discriminate against hiring older workers.

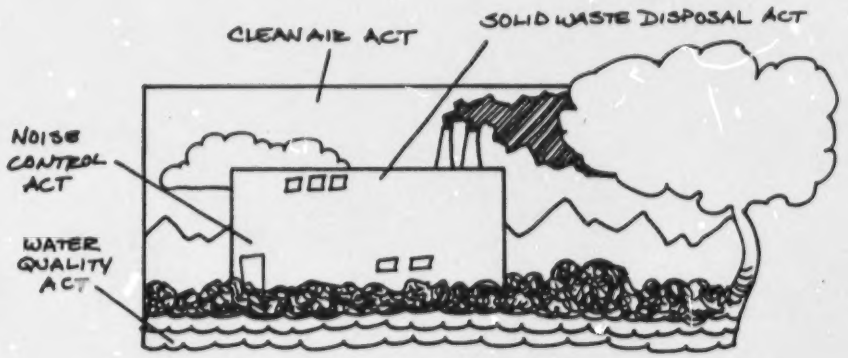
Protection of Employees. The federal government has passed many laws to protect employees. State and local laws give workers added protection. These laws are passed to make sure businesses are fair in hiring and promoting employees, pay a minimum wage, and improve the safety of the work place. They also set fair rules for working with persons starting unions. Some of these federal laws include—

- the Equal Employment Opportunity Act,
- Fair Labor Standards Act,
- Occupational Safety and Health Act,
- National Labor Relations Act.

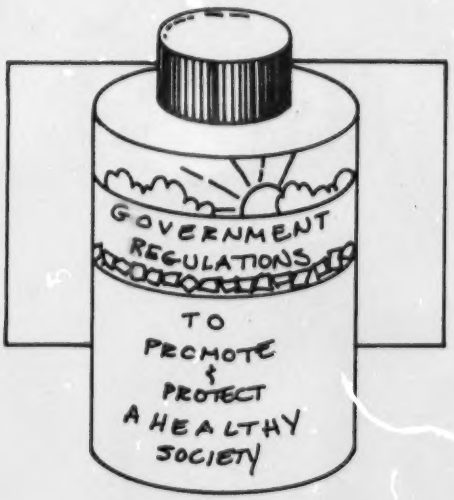
Protection of Consumers. The federal government enforces laws concerning unsafe products, false advertising, and truth in giving credit. It is against the law for businesses to make or sell food that has gone bad or drugs that have not been tested. Products that have incorrect labels or are packaged to fool customers are also illegal. When customers buy goods on credit, the business must give them all the information needed to make a smart choice concerning the use of credit. States also have laws designed to protect consumers. Some of the federal laws are—

- the Food, Drug, and Cosmetic Act;
- the Fair Packaging and Labeling Act;
- the Wheeler-Lea Act;
- the Truth-in-Lending Act.

Protection of the Environment. Recently, concern about protecting the environment has increased. Ways have been sought to decrease pollution of air, water, and other parts of the environment. Various branches of government—local, state, and federal—have passed laws to help protect the environment. On the national level, the Environmental Protection Agency (EPA) has been formed.



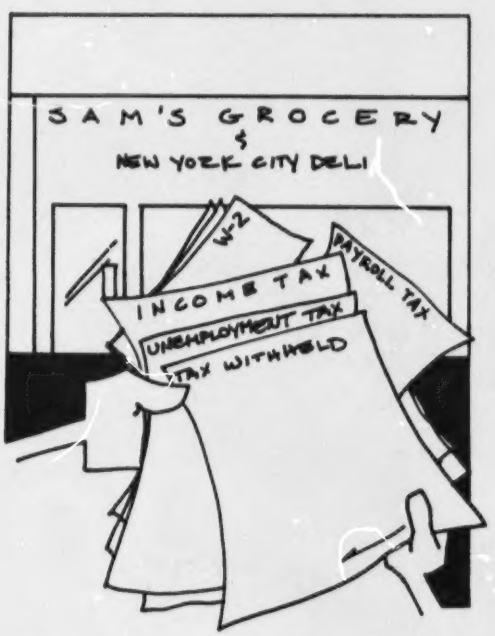
The government is concerned about businesses' smoke and fumes that may foul the air. Concern is growing over the correct way to get rid of industrial wastes. Nuclear and chemical wastes may pollute the ground, water, and air for many years.



Licenses and Permits. A business *license* or *permit* is formal permission to operate a business. Certain types of businesses are commonly "licensed." Business owners must meet certain requirements before a license or permit is issued. Payment of a yearly fee is usually required to obtain a license. You also may be asked to make a written application. Many of the laws mentioned earlier in this unit require the business operators to get a license or permit. Eating establishments, beauty salons, and barber shops must pass inspections to receive a health permit.

WHAT TYPES OF BUSINESS TAXES ARE THERE?

All businesses must follow tax laws. Your business, no matter what type of product or service you sell or when and how you sell it, must pay federal, state, and local taxes. Taxes must be paid on employees, inventory, and profits. Keeping good records of the many different types of business taxes is the key to paying the right ones.



Federal Taxes. Among the federal taxes you may have to pay are Social Security taxes, individual income, and the corporate income tax. Social Security taxes are shared by you, as employer, and by your employees. You must also withhold part of their wages for payment of their federal income tax. The law requires that every business with one or more employees withhold federal income taxes from the salaries paid to the employees. Payment of these payroll and income taxes must be made by certain deadlines or the company has to pay a penalty.

State and Local Taxes. The common types of state taxes are income, property, sales, and unemployment taxes. Many states also make businesses withhold income taxes from their employees. Other taxes paid on the state and local level are capital stock and inheritance taxes.

WHAT HELP CAN BE FOUND?

As you can see, businesses must follow many laws. Government regulations passed to improve our way of life often become a problem for the small business. The growing number of laws affecting businesses make the topic of business law more complex.

Many times, these laws are hard to understand, so obtaining a lawyer is wise. You can find a good lawyer through a bank, accountant, other business owner, or the state or county bar associations. You can also get help from the government agencies that enforce the regulations. Groups of business owners on the state and local level can also give you help.

ACTIVITIES

Knowing and following government regulations are important. Now that you have learned some basic facts about government regulations, try these activities. They will help you improve your knowledge of these laws.

INDIVIDUAL ACTIVITY

Prepare a list of advantages and disadvantages of government regulations from the point of view of the owner of a small business. For example, how is the business owner helped by the regulations that protect consumers? What problems will these regulations cause?

GROUP ACTIVITY

In a group of three of more persons, decide on answers to the following question: Why should the owner of a small business be aware of government regulations?

CASE STUDY

Ramone has just turned twenty-one and has been operating his own business for three years. Ramone and his staff of three workers provide lawn and garden care for the residents of a new section of a small city in the Midwest. Business is good and he is thinking of expanding to meet the lawn care needs of several large business firms in the area.

Ramone often thinks back to when he first started working at lawn care, when he was still in high school. Business was much simpler when his only duties were mowing and trimming lawns. Now that his business has grown and he has added employees, it seems the work is more complicated. The machinery, fertilizers, and other chemicals he uses all come with warnings concerning safe operation or application. His employees have begun asking questions about safe working conditions on the job.

Ramone is a little worried about all this. What if one of his employees, a customer, or bystander is hurt by a stone thrown by one of his lawnmowers? And are the chemicals used on the lawns safe? He has come to you for some advice.

1. Does he have a real reason to worry?
2. Who places the warning on his equipment and chemicals? Why?
3. What individuals or groups are protected by government regulations?
4. What can he do to find out more about government regulations?

ASSESSMENT

Directions: Read the following items to check your own knowledge of these topics. When you feel prepared, ask your instructor to test you on them.

1. Summarize the importance of government rules and regulations that affect small business owners.
2. Identify who makes the regulations.
3. Describe the effects that regulations have on small businesses.
4. List at least three groups protected by the government regulations.
5. Explain the use of licenses and permits.
6. Explain at least two types of taxes at the federal, state, and local levels that affect small businesses.

SOURCES USED TO DEVELOP THIS UNIT

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Rudelius, W.; Erickson, W; Bakula, W., Jr.; and Hanson, J. *An Introduction to Contemporary Business.* 3rd ed. New York: Harcourt Brace Javanovich, 1981.

Siropolis, N. *Small Business Management.* 2nd ed. Boston: Houghton Mifflin, 1982.

For further information, consult the lists of sources in the *Resource Guide.*

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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